



SMERA RATINGS LIMITED

Shreebhav Polyknits Private Limited (SPPL)

Rating Rationale

September 11, 2015

Facilities	Amount (Rs. Crore)	Ratings
Working Capital Limit	13.50	SMERA BBB-/Stable (Assigned)
Term Loan I*	7.70	SMERA BBB-/Stable (Assigned)
Term Loan II*	3.60	SMERA BBB-/Stable (Assigned)
Bank Guarantee	0.48	SMERA A3 (Assigned)

**Includes one-time project Letter of Credit within term loan limit to the extent of Rs.2.51 crore from import of machinery*

SMERA has assigned a rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and a short-term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.25.28 crore bank facilities of Shreebhav Polyknits Private Limited (SPPL). The outlook is '**Stable**'. The rating is supported by the company's long operational track record, experienced management and healthy financial risk profile. The rating also factors in the locational advantage with respect to proximity to raw material suppliers and comfortable revenue growth. However, the rating is constrained by the uneven profit margins on account of volatile raw material prices and working capital-intensive operations amidst intense competition.

SPPL, incorporated in 2002 is a Gujarat-based company engaged in the manufacture of twisted yarn knitted fabrics, polyester grey and embroidery fabric. The company is promoted by Mr. Sanjay Agarwal and Mrs. Shalini Agarwal who have around two decades of experience in the textile industry. The company has healthy financial risk profile marked by comfortable gearing and interest coverage ratio. The gearing stood at 1.09 times as on March 31, 2015 and interest coverage ratio is comfortable at 3.36 times for FY2014-15. The company registered a compounded annual growth rate of 36 per cent in the last four financial years. The manufacturing facilities are located in Surat which offers proximity to raw material suppliers.

SPPL has uneven margins - margins have fallen from 10.04 percent in FY2013-14 to 8.65 percent in FY2014-15 on account of raw material price volatility. The main raw material for SPPL is partially oriented yarn (POY), the prices of which are linked to adverse movements in crude oil prices. The company's operations are working capital-intensive as it offers liberal credit terms to customers. Further, the company procures POY from established suppliers such as Alok Industries Limited and Indo Rama Synthetics (India) Limited resulting in limited bargaining power. SPPL's working capital cycle is thus stretched at 81 days in FY2014-15. Also, SPPL faces intense competition from several players in the industry.

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**Outlook: Stable**

SMERA believes that SPPL will continue to benefit from the experienced management. The outlook may be revised to 'Positive' if the company displays good scalability in operations and is able to maintained profitability. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue or profitability.

About the Company

SPPL, incorporated in 2002 was promoted by Mr. Sanjay Agarwal and Mrs. Shalini Agarwal. The company manufactures twisted yarn and knitted fabrics, polyester grey and embroidery fabric at its manufacturing facilities in Surat, Gujarat.

SPPL reported profit after tax (PAT) of Rs.1.37 crore on operating income of Rs.77.04 crore for FY2014-15, as compared with PAT of Rs.0.86 crore on operating income of Rs.72.70 crore in FY2013-14.

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